

STRATEGIC GOAL 1

SUPPORTING PRODUCTIVE FARMS AND RANCHES



Grain Harvest and Storage Facility

The Nation's agricultural industry relies on the economic stability of farms and ranches. This premise is so fundamental to our mission that our first strategic goal is supporting productive farms and ranches. To achieve this goal, FSA delivers farm operating and ownership loans, income support programs, disaster assistance, and commodity operations programs. These programs provide a financial *safety net* for farms and ranches, helping them stay productive, and support the Nation's agricultural communities.

Farming in the 21st century will require substantial resources and extensive management skills. FSA programs help agricultural producers:

- obtain the credit they need,
- manage the risks associated with farming,
- recover economically and structurally when natural disasters strike, and
- become good stewards of the land.

To provide income stability, FSA makes direct payments to farmers, ranchers, and eligible landowners. The Agency works diligently to provide assistance and marketing loans promptly, efficiently, and equitably. When natural disasters strike, FSA reacts quickly to help affected producers recover from their losses and restore their lands to pre-disaster productivity levels. Additionally, FSA partners with commercial lender to guarantee ownership and operating loans and makes direct loans to producers to finance operating expenses and farm ownership loans or to provide needed capital in times of an emergency. FSA also partners with the Risk Management Agency (RMA) to inform producers about the benefits of insuring their crops against disaster or market-related income losses. These programs – commodity, disaster, loan, and insurance programs – help ensure that America continues to have a productive agricultural sector.

Similar to the loan programs, FSA Commodity Operations programs help create additional market opportunities for farmers and ranchers. Commodity Operations serve to enhance a thriving agricultural community and to promote a more market-based agricultural sector. Specifically, warehouse receipts, authorized under the United States Warehouse Act, create enforceable title documents between warehouse operators and farmers with terms and conditions meeting the requirements of lending institutions. Recently, to create a vital efficiency, FSA moved warehouse receipts from a paper to electronic format. Electronic warehouse receipts (EWRs), when combined with other electronic documents, greatly reduce the time involved in marketing commodities and reduce associated business costs throughout the marketing chain.





Flooded Corn Field

Agricultural producers face severe economic losses caused by natural phenomena such as drought, excessive moisture, hail, wind, hurricane, tornado, lightning, insects or other animal pests, reduced prices, reduced yields, or any combination of these. Agricultural production is characterized by relatively small profit margins and cycles of good and bad production years. FSA works in partnership with the Risk Management Agency (RMA) to provide and support cost-effective means of managing risk for agricultural producers. This assistance is part of the economic *safety net* and improves the economic stability of agriculture through powerful risk-management tools designed to help farmers and ranchers protect their livelihoods in times of disasters or other uncontrollable

conditions. These and other programs are integral to FSA's overall success in executing its Strategic Plan and reaching its end outcome goals:

END OUTCOMES

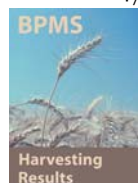
- Successful Farms and Ranches
 - A Market-Based Agriculture Sector
 - Thriving Agricultural Communities
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FSA is committed to providing a market-oriented *safety net* which will encourage farmers and ranchers to become more independent of government support. FSA will do all it can to ease the transition, so that farmers may become more successful while becoming less dependent on government support.

The Farm Security and Rural Investment Act of 2002, or 2002 Farm Bill, made significant changes to commodity programs that increased farmers planting flexibility and strengthened the linkage between market price expectations and farmers planting decisions thereby minimizing commodity market distortions that have historically resulted from commodity price and income support programs. When establishing county loan rates, FSA reviews changes in commodity production and relative prices in order to reflect the dynamic nature of the market place. When establishing alternative loan repayment rates, FSA takes great care to assure that commodities stay in commercial marketing channels and do not get forfeited to the CCC.

The Nation's total economy improves as farmers and ranchers build and sustain a stronger agricultural economy. Increases in farm ownership and profit contribute to a successful agricultural sector and stability in rural America. Thriving agricultural communities are important for the sustained economic growth of rural communities, and FSA is committed to do its part to help increase rural prosperity by continuing to support American agriculture.

Although FSA programs contribute to the accomplishment of these end outcomes, the Agency has somewhat limited influence over the many external factors that will influence success in achieving these outcomes. These end outcome measures are "Big Picture" items – directional indicators of the success of FSA's results at the intermediate level, which will be discussed in greater detail throughout the Plan. Performance in these areas will be evaluated and measured about every three years. This corresponds with GPRA requirements to review and consider updating the Strategic Plan every three years.



END OUTCOME MEASURES

SUCCESSFUL FARMS AND RANCHES

- Increased profit of farms and ranches.
- Increased percentage of farm ownership by racial and ethnic minorities and women farmers.

A MARKET-BASED AGRICULTURE SECTOR

- Increased percentage of gross farm income from non-governmental sources.
- Maintain or increase sales growth rate of agricultural products: domestic and exports.

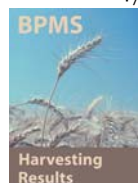
THRIVING AGRICULTURAL COMMUNITIES

- Sustained or improved growth rate of per capita income in agricultural communities.

To support these three societal goals, we identify four intermediate strategic objectives over which FSA has more influence:

- *Improving access to capital,*
- *Mitigating market losses,*
- *Mitigating losses from natural disasters, and*
- *Expanding market opportunities.*

FSA's performance in meeting these intermediate objectives will be measured annually or quarterly, as appropriate. FSA will also work with the Administration and Congress to advance market-based policies to support U.S. agriculture in the next Farm Bill.



INTERMEDIATE OBJECTIVES

IMPROVING ACCESS TO CAPITAL

PERFORMANCE MEASURES

- M1: Increase the percentage of beginning farmers, racial and ethnic minorities, and women farmers financed by FSA.
- M2: Maintain or reduce loss rates for direct and guaranteed loans.
- M3: Reduce average processing time for direct and guaranteed loans.

FSA programs allow farmers and ranchers to acquire loans that they cannot obtain through traditional credit sources at reasonable rates and terms. FSA specifically allocates funds and offers programs to beginning farmers, racial and ethnic minorities, and women. By providing loans and loan guarantees, FSA aids and sustains the productivity of family-sized farms and ranches. FSA underwrites high-risk loans to minimize losses that result from loan defaults.

One major initiative that will improve FSA's loan programs is the development of a Web-based Farm Business Plan, which provides farmers and ranchers better business and management planning. This Web-based system also enables FSA to better manage its loan portfolio. Once the system is adequately populated with borrower data, FSA will be able to perform more thorough analyses of its borrowers' financial positions. This effort will lead to earlier identification of borrower financial weaknesses, enhanced performance measurement, and improvements in overall program management.

MITIGATING MARKET LOSSES

PERFORMANCE MEASURES

- M1: Maintain participation rate for direct and counter-cyclical payment programs.
- M2: Reduce average processing time for program benefits.

In an era of heightened global competitiveness, FSA must help American farmers and ranchers remain the leaders in the sale of agricultural products, domestically and abroad. To sustain and increase market share, it is critical that FSA assist the agricultural industry to minimize market volatility by mitigating market losses. The Agency's various income support programs provide financial assistance to farmers when market prices fall below certain levels. These price support programs enable continuous food production while minimizing market losses.

For example, the Dairy Price Support Program purchases nonfat dry milk, cheese, and butter from vendors and processors to support the price of fluid milk. The program also supplies surplus price support commodities to various food distribution programs and provides surplus commodities for market development. This helps maintain market prices at the legislated support level, thereby mitigating market losses. FSA will also continue working to reduce the average processing time for program benefits to strengthen the vital *financial safety net* that keeps farmers solvent during difficult times.



MITIGATING LOSSES FROM NATURAL DISASTERS

PERFORMANCE MEASURES

- M1: Increase percent of liabilities covered by insurance.
- M2: Reduce or maintain average processing time for emergency and disaster designations, program benefits, and emergency assistance loans.

FSA administers income support and disaster assistance programs as needed. In times of natural disaster, FSA's emergency loan program and disaster relief programs help return farms and ranches to their pre-disaster state as quickly as possible. These programs, along with Federal crop insurance programs, are essential to the economic *safety net* that helps American farmers and ranchers maintain their operations during challenging times. Reducing FSA's processing time for emergency loans and disaster assistance will help farmers and ranchers recover more quickly from disasters. As a result, the percentage of market losses should decrease for those farmers and ranchers affected by production disruptions. Additionally, an increase in the percentage of liabilities covered by crop insurance will help farmers and ranchers recoup a higher percentage of their losses.

EXPANDING MARKET OPPORTUNITIES

PERFORMANCE MEASURES

- Increase percentage of ethanol's and biodiesel's share of total transportation fuel usage.

Maintaining a competitive agricultural system is critical to the continued growth of the American economy. Through its programs, FSA supports expanding markets for a wide variety of commodities including dairy, meat, corn, wheat, wool, cotton, and many others. Some specific program examples are outlined below.

President Bush's energy development policy calls for increased production from renewable energy sources, and FSA programs fulfill a critical part of that policy. To expand market opportunities, FSA's bioenergy program makes payments to producers to offset part of the cost of buying commodities used to expand eligible bioenergy production, such as commercial fuel grade ethanol and biodiesel. Since the bioenergy program is scheduled for full phase out by the end of FY 06, FSA is currently developing a new performance measure which will be more in line with current funding priorities. The new measure will reflect FSA's activities and progress toward expanding alternative markets.

One program designed to expand market opportunities for producers is FSA's cotton competitiveness program. The program provides incentives for American-produced cotton to be domestically consumed or exported and assists domestic mills and exporters to compete in the world market.



MEANS AND STRATEGIES

To improve access to capital, FSA will continue to:

- Streamline handbooks, information collections, and regulations for the direct loan program. This will allow the Agency to focus resources on providing technical assistance, services, monitoring, and oversight, which are essential tasks in supporting high-risk beginning and socially disadvantaged borrowers. A similar effort completed for the guaranteed loan program streamlined all business processes, dramatically reducing the reporting burden for applicants and the Agency and leading to continued improvement in loan processing efficiencies. Comparable results are anticipated for the direct loan program once the streamlining effort is complete.
- Focus outreach efforts on increasing the amount of lending and technical assistance provided to beginning, minority, and women farmers and ranchers, which will help them to establish and maintain profitable farming operations. While FSA provides assistance to these groups in greater amounts than commercial lenders, there are opportunities for improvement.
- Develop partnerships with “1890” institutions of higher education ² and other organizations to identify and assist minority farmers.
- Provide receipts through the U.S. Warehouse Act (USWA) which act as low-cost negotiable documents that can be used as security to obtain interim financing. These warehouse receipts improve marketing opportunities so producers can earn the best prices for stored commodities.

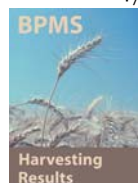
FSA will also:

- Facilitate and encourage electronic commerce to reduce costs and delays associated with marketing and delivering commodities.
- Develop streamlined methods of the disbursing program payments.
- Implement the Web-based Farm Business Plan system to provide farmers and ranchers better business and management capabilities.

To help mitigate producers’ market losses, FSA will:

- Continue to publicize available program benefits to all eligible producers.
- Improve access to information through use of:
 - Web pages,
 - media mailing,
 - FSA Service Center newsletters, and
 - informational meetings for producers.
- Modernize information technology delivery systems.

² These are Historically Black-serving colleges and universities created through the Federal land-grant system in 1890. These include: Alabama A&M University, Alcorn State University, University of Arkansas at Pine Bluff, Delaware State University, Florida A&M University, Fort Valley State University, Langston University, Lincoln University, Kentucky State University, North Carolina A&T State University, South Carolina State University, Southern University and A&M College System, Tuskegee University, University of Maryland Eastern Shore, Virginia State University, West Virginia State University, and the University of the Virgin Islands.



- Increase the availability of E-Government initiatives to allow producers 24-hour, 7-day-a-week access to farm programs. Current examples of FSA programs that can be accessed through the Internet include: electronic Loan Deficiency Payments (eLDPs), electronic Direct and Counter-Cyclical Program (eDCP), and electronic Milk Income Loss Contracts (eMILC).
- Collaborate with Cooperative State Research, Education and Extension Service (CSREES) to provide producers opportunities to learn commodity marketing skills and strategies to improve crop prices.

To mitigate the adverse results of natural disasters and provide relief to producers, FSA will:

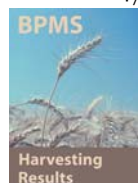
- Encourage producers to purchase crop insurance for all insurable crops.
- Partner with RMA and CSREES to provide producers with information about Federal crop insurance and FSA's Noninsured Assistance Program (NAP), and other disaster assistance programs as they become available.
- Maintain linkage between FSA's Disaster Program payments and requirements to purchase Federal crop insurance or NAP coverage.
- Expand coverage of risk management tools.
- Modernize Information Technology delivery systems.
- Increase the use of Geographic Information System (GIS) to assess areas damaged by natural disasters and to speed up the delivery of disaster payments.
- Continue to expand the number of adequately trained loss adjusters.

To increase the percentage of market share for ethanol and biodiesel, FSA will:

- Continue coordinating with the Renewable Fuels Association, the primary ethanol industry association, and, the National Biodiesel Board, the primary biodiesel organization, to promote the use of the Bioenergy Program.
- Support increasing production and new production capacity.
- Inform producers and fuel industry groups of announcements and deadlines for the Bioenergy program, and make program information and required forms readily available to potential participants. This includes Internet access to all forms and program information. Beginning in FY 2005, electronic filing of all forms will be available, resulting in increased program efficiency and cost-effectiveness.

To achieve the objective for the cotton competitiveness programs, FSA will:

- Continue to work with the cotton industry to streamline the payment process and provide needed support to achieve the industry's goals.



EXTERNAL FACTORS

The desired outcomes described above are influenced by the natural and economic forces that make farming such a high-risk venture. Widespread or prolonged natural disasters can significantly reduce farm production and reduce net income. Substantial inflation in farm expenses or depressed commodity prices can have similar effects. As economic conditions deteriorate in the agricultural sector, it becomes more difficult for commercial rural lending institutions to deliver capital. This boosts the demand for FSA farm loan programs. Such conditions reduce borrower repayment ability, increase delinquencies and losses, and reduce the ability of direct borrowers to obtain guaranteed credit. These conditions will also dramatically increase Service Center employee workload, hindering FSA's ability to provide timely assistance to affected producers.

In light of these possibilities, FSA encourages farmers to follow risk management practices such as purchasing crop insurance and using marketing tools such as forward contracting. In addition, depending on the severity of natural disasters, FSA temporarily moves personnel to affected areas to ensure emergency/disaster assistance is provided as quickly and effectively as possible.

Other external factors that challenge FSA's ability to achieve its desired outcomes include:

- Acceptance of E-Gov initiatives;
- Acceptance and demand for renewable fuels;
- Availability and price of fossil fuels resulting in a change in demand for and competitiveness of biodiesel and ethanol;
- International trade agreements that influence U.S. price support programs;
- Adoption of cotton alternatives in the textile industry, leading to a decline in cotton demand; and
- Conversion of currently supported commodity acreage and production capacity to alternative crops or to non-agricultural uses.

As with all Federal programs, FSA's ability to successfully achieve its goals and performance targets (see Appendix C) is substantially influenced by the Agency's budget.

